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SUBJECT: GERMAN NUCLEAR POWER PLANT TO USSR

FOR SONNENFELDT AND HARTMAN

1. THIS MESSAGE CONTAINS BACKGROUND AND ANALYSIS FOR YOUR
USE IN DISCUSSING PROPOSED FRG-USSR NUCLEAR POWER ARRANGE-
MENT WITH SCHMIDT ON OCTOBER 27.

2. SUMMARY OF PROPOSAL:

(A) TRANSACTION ENVISAGES EXPORT GERMAN-PRODUCED COMPUTER-
CONTROLLED 1300 MEGAWATT NUCLEAR POWER PLANT VALUED 540
MILLION DOLS CONTAINING PRESSURIZED WATER REACTOR AND
550,000 KILOGRAMS OF URANIUM FOR ENRICHMENT IN USSR.
TAILS WOULD BE RETURNED TO WESTERN COUNTRY SUPPLYING
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URANIUM IN ACCORDANCE WITH COCOM REQUIREMENTS. SPENT FUEL
ELEMENTS WOULD BE STORED OR REPROCESSED IN USSR. INTENDED
DISPOSITION OF PLUTONIUM FROM PLANT NOT YET CLEAR.

(B) POWER GENERATED BY REACTOR TO BE LOCATED NEAR KALININGRAD WOULD TRANSIT POLAND AND GDR TO WEST BERLIN AND THEN ACROSS GDR TERRITORY TO FRG. MAJOR CONVERSION (FROM DC TO AC) AND DISTRIBUTION INSTALLATION WOULD BE LOCATED IN WEST BERLIN. ALTHOUGH PROPOSED REACTOR WOULD COVER 30-50 PERCENT OF WEST BERLIN'S POWER NEEDS

WEST BERLIN WOULD MAINTAIN SUFFICIENT UNUSED RESERVE CAPACITY TO PRODUCE AT LEAST 80 PERCENT OF ITS POWER REQUIREMENTS.

(C) WE BELIEVE GERMAN-SOVIET NEGOTIATIONS NOT AS FAR ADVANCED AS WOULD SEEM INDICATED BY FRG PRESSURES FOR APPROVAL. STILL NO AGREEMENT ON PAYMENT TERMS, INTEREST RATES, TAX PROBLEMS, STATUS LAND RIGHTS FOR TRANSMISSION LINES IN POLAND AND GDR, AND OVERALL ROLE OF GDR. SOVIETS NOW SEEKING FOUR RATHER THAN ONE REACTOR, SHIFT OF TRANSMISSION INSTALLATION AWAY FROM WEST BERLIN TO MAGDEBURG AND ADDITION OF GDR AS RECIPIENT OF POWER. GERMAN SUBSIDIARY OF U.S. COMPANY IS ONE FIRM APPROACHED BY SOVIETS FOR PURCHASE OF OTHER REACTORS.

3. COCOM STATUS:

(A) FRG HAS ASKED FOR COCOM APPROVAL OF NUCLEAR POWER REACTOR. RELEVANT COCOM RULE IS: QUOTE THE COMMITTEE WILL CONSIDER SYMPATHETICALLY, ON THE BASIS OF INDIVIDUAL JUSTIFICATION, REQUESTS FOR EXPORT OF CIVIL RESEARCH AND POWER REACTORS, INCLUDING MAJOR COMPONENTS THEREOF AND INITIAL SHIPMENTS OF FUEL AND MODERATORS THEREFOR, IN CONNECTION WITH WHICH THE RECIPIENT COUNTRY HAS AGREED TO ALLOW THE SAFEGUARDS OF THE INTERNATIONAL ATOMIC ENERGY AGENCY TO BE APPLIED. THE DECISION IN EACH CASE WILL TAKE INTO ACCOUNT ALL RELEVANT CIRCUMSTANCES. THE NOTE IS NOT TO BE INTERPRETED AS A COMMITMENT BY ANY MEMBER TO APPROVE ANY INDIVIDUAL CASE. UNQUOTE

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(B) U.S., FRANCE AND U.K. ASKED FRG IN COCOM WHETHER IAEA SAFEGUARDS WOULD BE APPLIED TO THE SPECIAL NUCLEAR MATERIAL USED IN THE REACTOR AS WELL AS THE PLUTONIUM GENERATED BY IT, PLUS OTHER RELEVANT QUESTIONS (STATE 215187 TO USOECD PARIS). ON OCTOBER 22 FRG INFORMED COCOM THAT IAEA SAFEGUARDS HAD BEEN DISCUSSED BY HERMES DURING MEETING GERMAN-SOVIET COMMISSION ON ECONOMIC AND SCIENTIFIC TECHNICAL COOPERATION IN MOSCOW OCTOBER 15-18, AND SOVIET REPRESENTATIVES HAD REFUSED TO ACCEPT ANY KIND OF SAFEGUARDS IN NUCLEAR FIELD. (USOECD TO DEPARTMENT 24896) FRENCH AND U.K. DELS SAID WOULD INFORM GOVERNMENTS WHICH WOULD RE-EXAMINE GERMAN REQUEST QUOTE WITH UNDERSTANDING UNQUOTE IN LIGHT OF IT. A U.S. QUESTION ON DISPOSITION

OF PLUTONIUM GENERATED BY PLANT NOT YET ANSWERED BUT GERMAN DELEGATES TO COCOM ON OCTOBER 23 SUGGESTED ORIGINAL FRG SUBMISSION TO COCOM INCLUDED INDIRECT ANSWER IN SAYING USSR WOULD BECOME OWNER AND SOLELY RESPONSIBLE FOR BOTH NEW AND SPENT FUEL. (USOECN TO DEPARTMENT 25027).

(C) ON OCTOBER 24 WE LEARNED FROM U.K. EMBASSY THAT SCHMIDT HAD WRITTEN WILSON TO ENLIST SUPPORT FOR APPROVAL. U.K. RESPONSE WAS TO PROPOSE URGENT MEETING OF FOUR POWERS (U.K., FRANCE, U.S., FRG) IN BONN TO DISCUSS IN DETAIL, AND REQUEST U.S. SUPPORT IN CALLING FOR MEETING. (SEE SEPTEL.)

4. ANALYSIS OF PROBLEM:

(A) U.S. POSITION ON SALE OF NUCLEAR POWER PLANTS TO COMMUNIST COUNTRIES WAS SET FORTH NSDM 261 JULY 1974. ALTHOUGH NSDM REFERS PRIMARILY TO PRC, IT ALSO STATES THAT SALES OF NUCLEAR POWER PLANTS BY U.S. OR OTHER COCOM MEMBERS TO COMMUNIST COUNTRIES WOULD REQUIRE APPLICATION OF IAEA SAFEGUARDS. IN ORDER TO MOVE RESPONSIVELY ON GERMAN CASE IT WOULD BE NECESSARY TO REVERSE THIS DECISION OR MAKE AN EXCEPTION TO IT. MOREOVER, IF AN EXCEPTION WERE TO BE MADE ON THE FRG CASE IT WOULD HAVE TO APPLY EQUITABLY TO U.S. COMPANIES AND OTHER COCOM MEMBERS. LIKEWISE DENIAL OF FRG REQUEST WOULD REQUIRE SAME ACTION IN FUTURE FOR POSSIBLE U.S. OR OTHER COCOM SALES.

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(B) ESTABLISHMENT OF IAEA SAFEGUARDS FOR REACTOR IN USSR WOULD MEAN GRANTING ACCESS BY SOVIETS TO IAEA INSPECTORS. INSPECTORS WOULD AT INFREQUENT INTERVALS AUDIT NUCLEAR FUEL RECORDS OF FACILITY, DETERMINE THAT AMOUNT AND CONDITION OF FUEL ON HAND CORRESPONDED TO RECORDS, AND ASCERTAIN DISPOSITION OF FUEL SHIPMENTS TO AND FROM FACILITY. IAEA IN VIENNA WOULD MAINTAIN CENTRAL ACCOUNTABILITY RECORDS ON FACILITY, RECORDING ALL TRANSFERS OF MATERIAL TO AND FROM IT. IT WOULD BE NECESSARY FOR USSR TO ENTER INTO A SAFEGUARDS AGREEMENT WITH THE IAEA WHICH WOULD DEFINE THE RIGHTS AND PRIVILEGES OF THE PARTIES.

(C) AS YOU RECALL, U.S. HAS VOLUNTARILY OFFERED TO PLACE ALL OF ITS PEACEFUL NUCLEAR FACILITIES UNDER IAEA SAFEGUARDS. THIS POSITION WAS REITERATED AS LATE AS THIS PAST SEPTEMBER AT THE PRESIDENTIAL LEVEL. U.K. HAS MADE SIMILAR OFFER. ON OTHER HAND, USSR HAS REFUSED TO PUT ITS PEACEFUL FACILITIES UNDER INTERNATIONAL SAFEGUARDS. FRG HAS BEEN PRINCIPAL CRITIC OF U.S. OFFER, CLAIMING THAT IT DOES NOT GO FAR ENOUGH. NOW, FRG IS ASKING THAT REACTOR BE SOLD TO USSR WITHOUT IMPOSITION OF ANY SAFE-

GUARDS, A POSITION THAT IS CONTRARY TO COCOM RULES AND TO PRESENT U.S. POLICY.

(D) THERE ARE SOME INDICATIONS THAT A STRONG PITCH BY SCHMIDT MIGHT LEAD TO ACCEPTANCE BY USSR OF IAEA

SAFEGUARDS COVERING THE FRG REACTOR. IN LIGHT OF THIS, WE BELIEVE IT WOULD BE A TACTICAL MISTAKE TO SUGGEST FALLBACKS TO SCHMIDT BEFORE HE MAKES SERIOUS ATTEMPT TO GET SAFEGUARDS IN HIS DISCUSSIONS WITH BREZHNEV.

(E) FRG DEFINES MAIN POLITICAL ATTRACTION OF PROJECT AS BENEFITS IT OFFERS TO WEST BERLIN. WE CONCUR IN THIS. BESIDES INCREASED POWER, BENEFITS WOULD INCLUDE CERTAIN AUTONOMY OF DISTRIBUTION BY LOCATING CONVERTER INSTALLATION IN WEST BERLIN. IF HOWEVER, USSR WANTS TO DELIVER THIS INSTALLATION TO GDR, POLITICAL AND LOGISTIC ADVANTAGE OF ARRANGEMENT DIMINISHES, TO SAY THE LEAST.

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(F) FYI POSSIBLE FALLBACKS DESIGNED TO BYPASS SAFE-GUARDS ISSUE WHICH MIGHT BE SUGGESTED TO GERMANS AT A LATER STAGE INCLUDE:

ALTERNATIVE ONE

FRG WOULD PROPOSE TO USSR THAT PLUTONIUM PRODUCED IN FRG-FURNISHED REACTOR BE RETURNED TO FRG FOR FABRICATION INTO PLUTONIUM RECYCLE FUEL FOR REACTOR. USSR WOULD REIMBURSE FRG FOR COST OF FUEL FABRICATION SERVICES. FABRICATION IN FRG WOULD BE PERFORMED UNDER EURATOM SAFEGUARDS (AND ULTIMATELY UNDER NPT SAFEGUARDS BY IAEA/EURATOM WHEN NPT IS RATIFIED BY EC COUNTRIES). AMOUNT OF PLUTONIUM RETURNED TO FRG WOULD BE CALCULATED THROUGH MUTUALLY AGREEABLE METHODS BASED ON POWER OUTPUT OF REACTOR, WHICH COULD BE MONITORED BY FRG THROUGH AMOUNT OF POWER DELIVERED TO WEST BERLIN AND FRG.

WE BELIEVE THAT WITH STRONG US/FRG SUPPORT THIS CONCEPT COULD BE SOLD IN COCOM. IT WOULD BE CONSISTENT WITH POSITION WE HAVE TAKEN ON RETURN OF DEPLETED URANIUM TAILS FROM USSR UNDER URANIUM ENRICHMENT CONTRACTS WITH THAT COUNTRY, WHERE WE DO NOT REQUIRE SAFEGUARDS ON THE ENRICHMENT PROCESS IN THE USSR, PROVIDED THAT THE ENRICHED PRODUCT AND THE TAILS ARE RETURNED TO THE WEST.

ALTERNATIVE TWO

A SECOND, LESS FAVORABLE ALTERNATIVE WOULD BE TO REQUIRE THAT THE FRG PURCHASE ALL PLUTONIUM PRODUCED IN THE FRG-FURNISHED REACTOR FROM THE USSR AND THAT THIS PLUTONIUM

BE SAFEGUARDED, OF COURSE, IN THE FRG AND HELD FOR USE IN PLUTONIUM RECYCLE FUEL FOR FRG OR OTHER WESTERN REACTORS. THIS WOULD REQUIRE A CASH OUTLAY OR BARTER ARRANGEMENT BY FRG AND HENCE WOULD NOT BE SO ECONOMICALLY ATTRACTIVE TO FRG.

ALTHOUGH FIRST ALTERNATIVE HAS MERIT AS SOLUTION TO IMPASSE, IT IS POSSIBLE THAT USSR WILL RESIST IF IT TRULY NEEDS PLUTONIUM, OR IF IT BELIEVES THAT ACTION IS INFRINGEMENT ON ITS SOVEREIGN RIGHTS. WE KNOW OF NO WAY TO FIND
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THIS OUT EXCEPT BY ASKING FRG TO TRY OUT PROPOSAL ON USSR. END FYI.

5. RECOMMENDED APPROACH:

SUBJECT TO POSSIBLE ADDITIONAL GUIDANCE YOU MAY HAVE FROM SECRETARY, WE BELIEVE YOU SHOULD COVER FOLLOWING POINTS WITH SCHMIDT:

(A) INQUIRE CLOSELY AS TO BEST ESTIMATE OF SOVIET INTENTIONS RE GDR ROLE IN PROJECT. DEGREE OF GDR PARTICIPATION IS CRUCIAL IN ASSESSING IMPACT OR DESIRABILITY OF PROGRAM IN TERMS OF WEST BERLIN (AND ALLIED) INTERESTS.

(B) BOTH U.S. POLICY AND COCOM AGREEMENTS REQUIRE APPLICATION OF IAEA SAFEGUARDS AS DESCRIBED PARAGRAPH 4(B) ABOVE.

(C) WE COULD NOT POSSIBLY RE-EXAMINE OUR POLICY IN THIS MATTER UNTIL THE FRG HAS THOROUGHLY EXAMINED THE QUESTION WITH THE USSR AT THE POLITICAL LEVEL TO OBTAIN A DEFINITIVE SOVIET POSITION. YOU SHOULD REMIND SCHMIDT OF THE HISTORY OF U.S., FRG AND SOVIET ATTITUDES ON SAFEGUARDS AS DESCRIBED PARAGRAPH 4(C) ABOVE.

(D) APPLICABILITY OF SAFEGUARDS TO NUCLEAR REACTOR SALES ACROSS THE BOARD IS SERIOUSLY VIEWED IN USG. A FAVORABLE DECISION ON GERMAN CASE FOR USSR WOULD NECESSARILY IMPLY A SIMILAR STANDARD FOR U.S. OR OTHER COCOM COUNTRY CASES AND COULD BE VIEWED AS A WEAKENED POLICY GENERALLY ON SAFEGUARDS WITH RESPECT TO NUCLEAR POWER PLANTS WORLDWIDE.

(E) SUGGEST THAT DETAILED DISCUSSION OF THE PROJECT BY U.S., U.K., FRANCE AND FRG BE HELD IN BONN FOLLOWING SCHMIDT'S VISIT. MATTER MUST STILL BE DEALT WITH OFFICIALLY IN COCOM AND U.S. POSITION NOT FULLY DETERMINED.

6. AEC STAFF BELIEVES THAT ADDITIONAL TIME IS NEEDED TO GIVE CAREFUL INTERAGENCY CONSIDERATION TO THE COMPLEX INTERPLAY OF ISSUES INVOLVED INCLUDING WHETHER U.S.

NATIONAL SECURITY WOULD BE ADVERSELY AFFECTED, (PAR-
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TICULARLY WITH REGARD TO GIVING SOVIETS INFO VALUABLE
TO THEIR NUCLEAR NAVY). THUS, THE AEC DOES NOT CONCUR
IN APPROACH TO SCHMIDT PROPOSED ABOVE SINCE THEY BELIEVE
IT WOULD INDICATE EVENTUAL U.S. APPROVAL SALE AND AEC

NOT YET PREPARED MAKE THAT DETERMINATION. DOD/ISA
SUPPORTS AEC POSITION. AEC POINTS OUT THAT CHAIRMAN RAY
INSTITUTED STUDY ON GENERAL MATTER OF EXPORTING NUCLEAR
TECHNOLOGY AND EQUIPMENT TO THE USSR AND OTHER COMMUNIST
NATIONS AND THAT STUDY IS NOW BEING COMPLETED AND WILL BE
CIRCULATED TO OTHER AGENCIES FOR COMMENT IN THE NEAR
FUTURE. ALSO POINTS OUT CONGRESSIONAL REACTION TO SALE
OF REACTORS TO USSR BY ANY OTHER WESTERN COUNTRY CAN BE
EXPECTED TO BE EXTREMELY NEGATIVE. INGERSOLL

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